

CITY OF TRAER

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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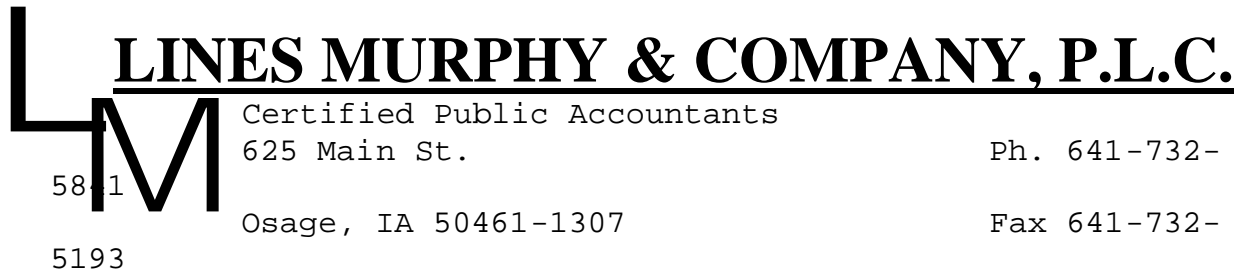
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# City of Traer

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Russell L. Drinovsky	Mayor	Jan 2006
Mark A. Mason	Mayor Pro tem	Jan 2006*
Lou Rausch (interim)	Council Member	Jan 2006
Patty Guzman	Council Member	Jan 2006
Raymond Mundt	Council Member	Jan 2008
Dean R. Ohrt	Council Member	Jan 2008
Mark A. Mason	Council Member	Jan 2008*
Jon Panfil	City Clerk	Indefinite
Dorothy Weida	Deputy Clerk	Indefinite
Marc Powell	City Attorney	Indefinite
Cecilia Harmsen	City Treasurer	Indefinite
Randy D. Magnussen	TMU Trustee/Chairman	Jan 2009
Richard Thompson	TMU Trustee	Jan 2006
Bruce A. Overton	TMU Trustee	Jan 2007
Daniel M. Larmore	TMU Trustee	Jan 2008
Sandra J. Whannel	TMU Trustee	Jan 2010
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite
(After January 2006)		
Russell L. Drinovsky	Mayor	Jan 2008
Mark A. Mason	Mayor Pro tem	Jan 2008
Dean R. Ohrt	Council Member	Jan 2008
Mark A. Mason	Council Member	Jan 2008
Raymond Mundt	Council Member	Jan 2008
Patty Guzman	Council Member	Jan 2010
Lou Rausch	Council Member	Jan 2010
Jon Panfil	City Clerk	Indefinite
Dorothy Weida	Deputy Clerk	Indefinite
Marc Powell	City Attorney	Indefinite
Cecilia Harmsen	City Treasurer	Indefinite
Randy D. Magnussen	TMU Trustee/Chairman	Jan 2009
Bruce A. Overton	TMU Trustee	Jan 2007
Daniel M. Larmore	TMU Trustee	Jan 2008
Sandra J. Whannel	TMU Trustee	Jan 2010
Richard Thompson	TMU Trustee	Jan 2012
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite

\* Mayor Pro tem serves a two-year term. Council members serve a four-year term.



### Independent Auditors' Report

To the Honorable Mayor, Members of the City Council and  
Board of Trustees, Traer Municipal Utilities:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Traer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Traer as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2006 on our consideration of the City of Traer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 21 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
August 29, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Traer provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

The reader should consider that this Management's Discussion and Analysis places focus on the primary government and little focus, if any, on the component units.

### 2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 7.1%, or approximately \$101,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$22,000.
- Disbursements increased 80.2%, or approximately \$1,330,000, in fiscal 2006 from fiscal 2005. Capital projects disbursements increased approximately \$1,340,000 due to the new prairie west and street projects.
- The City's total cash basis net assets decreased 60.6%, or approximately \$1,440,000 from June 30, 2005 to June 30, 2006. The decrease was primarily due to major street projects completed in the summer of 2005, and the completion of the Prairie West Housing Development.
- Traer Municipal Utilities total cash basis net assets decreased 15.8% to \$926,881. The decrease was due in part to capital expenditures paid in FY 2006, using reserves established in previous years. The Utility was also involved in starting three water projects, the costs of which will eventually be reimbursed through a USDA grant and the Federal Underground Storage Tank Fund.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sewer project and the discreetly presented component unit Traer Municipal Utilities. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. At this time, all of the proprietary funds are maintained by the Traer Municipal Utilities.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$2.385 million to \$.941 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 304	\$ 300
Operating grants, contributions and restricted interest	135	349
General receipts:		
Property tax	519	502
Local option sales tax	78	74
Unrestricted investment earnings	41	15
Bond proceeds	-	1,239
Other general receipts	466	200
Transfers, net	-	(14)
Total receipts and transfers	<u>\$ 1,543</u>	<u>\$ 2,665</u>
Disbursements:		
Public safety	\$ 277	\$ 243
Public works	343	355
Health and social services	8	8
Culture and recreation	157	167
Community and economic development	105	162
General government	140	142
Debt service	246	210
Capital projects	1,711	370
Total disbursements	<u>\$ 2,987</u>	<u>\$ 1,657</u>
Decrease in cash basis net assets	\$ (1,444)	\$ 1,008
Cash basis net assets beginning of year	<u>2,385</u>	<u>1,377</u>
Cash basis net assets end of year	<u>\$ 941</u>	<u>\$ 2,385</u>

The City's total receipts for governmental activities increased by 7.1%, or approximately \$102,000. The total cost of all programs and services increased by approximately \$1,329,000, or 80.2%, with no new programs added this year. The significant increase in the cost of programs was primarily the result of the Prairie West capital project.

The cost of all governmental activities this year was \$2.986 million compared to \$1.657 million last year. However, as shown in the Statement of Activities and Net Assets on pages 9-10, the amount taxpayers ultimately financed for these activities was \$2.547 million because some of the cost was paid by those directly benefited from the programs (\$304,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$349,000).



## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$941,174, a decrease of slightly less than \$1,444,000 below last year's total of \$2,384,835. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$44,719 to \$791,433 during the fiscal year.
- The Prairie West and Street Improvement Capital Project fund balance decreased sharply by \$1,512,260 to \$73,418. The large decrease was the result of expenditures in the new Prairie West additions.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time, increasing budgeted expenditures by \$453,000. The amendment was approved on May 1, 2006 to provide for additional disbursements in certain City and Utility departments.

## DEBT ADMINISTRATION

At June 30, 2006, the City and Utilities had approximately \$4,777,000 in bonds and other long-term debt, compared to approximately \$5,026,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2006	2005
General obligation bonds	\$ 2,020	\$ 2,120
Component Unit bonds/notes	2,017	2,134
State revolving loan	740	772
Total	<u>\$ 4,777</u>	<u>\$ 5,026</u>

Debt decreased as a result of regular scheduled bond payments. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,020,000 is below its constitutional debt limit of \$3.5 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Traer's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, including tax rate and fees that will be charged for various City Services. The City Council was facing continued state funding cutbacks, as well as another decrease in the "residential rollback", which affects the taxable value of properties in the city.

Taxable value in the City of Traer increased approximately 6.9%, from \$37.9 million to \$40.5 million. The increase was due primarily to an equalization adjustment of 7% in Tama County residential property values. The rest of the increase was due to some new construction, partially offset by the continued decrease in residential rollback. Tax revenues were budgeted to increase approximately \$34,000 in FY07. The tax rate increased only 0.5% (from \$13.266 to \$13.338). This small increase, coupled with the decrease in rollback, resulted in a net lower tax rate on residential properties. Total revenues were projected to decrease by \$1.7 million, due to large federal and funding and borrowing revenues which had been budgeted in FY06, and not included in the FY07 budget. Expenditures were also projected to decrease significantly (\$2.0 million), as the major construction projects in the City and Utility budgets were expected to be finished in FY06. Overall, cash balances were expected to decrease by only

\$100,000, due primarily to planned capital purchases using the reserves established in previous years.

The Traer Municipal Utilities Board approved a budget that includes a slight increase in revenues, due to increased consumption, with a corresponding increase in expenditures. Overall, total cash balances of Traer Municipal Utilities were projected to remain relatively flat.

#### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon Panfil, City Clerk, 649 Second Street, City of Traer, Iowa.

City of Traer

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	<u>Disbursements</u>
Functions / Programs:	
Governmental activities:	
Public safety	\$ 277,207
Public works	343,485
Health and social services	7,882
Culture and recreation	156,602
Community and economic development	104,266
General government	139,770
Debt service	245,761
Capital projects	<u>1,711,090</u>
Total governmental activities	<u>\$ 2,986,063</u>
Component units:	
Traer Municipal Utilities	
Electric	\$ 2,223,305
Water	445,806
Sewer	<u>124,727</u>
Total Utilities	<u>\$ 2,793,838</u>
Traer Ambulance Service	<u>\$ 72,492</u>
Total component units	<u>\$ 2,866,330</u>
Total	<u><u>\$ 5,852,393</u></u>
General Receipts:	
Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Unrestricted interest on investments	
Miscellaneous	
Transfers	
Total general receipts and transfers	
Change in cash basis net assets	
Cash basis net assets beginning of year	
Cash basis net assets end of year	
Cash Basis Net Assets	
Restricted:	
Streets	
Debt service	
Unrestricted	
Total cash basis net assets	

See notes to financial statements.

Exhibit A

Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Aggregate Discretely Presented Component Units
Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	
\$ 136,524	\$ -	\$ -	\$ (140,683)	\$ -	\$ (140,683)	\$ -
-	133,458	-	(210,027)	-	(210,027)	-
3,193	-	-	(4,689)	-	(4,689)	-
58,755	850	-	(96,997)	-	(96,997)	-
105,421	1,181	-	2,336	-	2,336	-
-	-	-	(139,770)	-	(139,770)	-
-	-	-	(245,761)	-	(245,761)	-
-	-	-	(1,711,090)	-	(1,711,090)	-
<u>\$ 303,893</u>	<u>\$ 135,489</u>	<u>\$ -</u>	<u>\$ (2,546,681)</u>	<u>\$ -</u>	<u>\$ (2,546,681)</u>	<u>\$ -</u>
\$ 2,107,836	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (115,469)
365,794	-	-	-	-	-	(80,012)
116,665	-	-	-	-	-	(8,062)
<u>\$ 2,590,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (203,543)</u>
<u>\$ 15,435</u>	<u>\$ 26,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30,957)</u>
<u>\$ 2,605,730</u>	<u>\$ 26,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (234,500)</u>
<u>\$ 2,909,623</u>	<u>\$ 161,589</u>	<u>\$ -</u>	<u>\$ (2,546,681)</u>	<u>\$ -</u>	<u>\$ (2,546,681)</u>	<u>\$ (234,500)</u>
			\$ 412,881	\$ -	\$ 412,881	\$ -
			30,519	-	30,519	-
			75,201	-	75,201	-
			78,263	-	78,263	-
			40,514	-	40,514	32,185
			465,642	-	465,642	-
			-	-	-	-
			<u>\$ 1,103,020</u>	<u>\$ -</u>	<u>\$ 1,103,020</u>	<u>\$ 32,185</u>
			\$ (1,443,661)	\$ -	\$ (1,443,661)	\$ (202,315)
			2,384,835	-	2,384,835	1,135,078
			<u>\$ 941,174</u>	<u>\$ -</u>	<u>\$ 941,174</u>	<u>\$ 932,763</u>
			\$ 12	\$ -	\$ 12	\$ -
			1,000	-	1,000	258,927
			940,162	-	940,162	673,836
			<u>\$ 941,174</u>	<u>\$ -</u>	<u>\$ 941,174</u>	<u>\$ 932,763</u>

City of Traer  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2006

	General
Receipts:	
Property tax	\$ 412,881
Tax increment financing collections	30,519
Other city tax	6,958
Licenses and permits	1,688
Use of money and property	21,393
Intergovernmental	29,408
Charges for service	267,246
Miscellaneous	329,323
Total receipts	<u>\$ 1,099,416</u>
Disbursements:	
Operating:	
Public safety	\$ 277,207
Public works	156,880
Health and social services	7,882
Culture and recreation	156,602
Community and economic development	46,039
General government	139,770
Debt service	-
Capital projects	-
Total disbursements	<u>\$ 784,380</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 315,036</u>
Other financing sources (uses):	
Operating transfers in	\$ -
Operating transfers out	(270,317)
Total other financing sources (uses)	<u>\$ (270,317)</u>
Net change in cash balances	\$ 44,719
Cash balances beginning of year	746,714
Cash balances end of year	<u><u>\$ 791,433</u></u>
Cash Basis Fund Balances	
Reserved:	
Debt service	\$ -
Unreserved:	
General fund	791,433

See notes to financial statements.

Exhibit B

Special Revenue		Capital Project	Other	
Road		Prairie West	Nonmajor	
Use	Debt	and Street	Governmental	
Tax	Service	Improvement	Funds	Total
\$ -	\$ 75,200	\$ -	\$ -	\$ 488,081
-	-	-	-	30,519
-	-	-	78,263	85,221
-	-	-	-	1,688
-	280	-	-	21,673
133,458	131,121	-	-	293,987
-	-	-	-	267,246
-	-	24,664	-	353,987
\$ 133,458	\$ 206,601	\$ 24,664	\$ 78,263	\$ 1,542,402
\$ -	\$ -	\$ -	\$ -	\$ 277,207
186,605	-	-	-	343,485
-	-	-	-	7,882
-	-	-	-	156,602
-	-	-	58,227	104,266
-	-	-	-	139,770
-	245,761	-	-	245,761
-	-	1,711,090	-	1,711,090
\$ 186,605	\$ 245,761	\$ 1,711,090	\$ 58,227	\$ 2,986,063
\$ (53,147)	\$ (39,160)	\$ (1,686,426)	\$ 20,036	\$ (1,443,661)
\$ 52,159	\$ 39,160	\$ 174,166	\$ 4,832	\$ 270,317
-	-	-	-	(270,317)
\$ 52,159	\$ 39,160	\$ 174,166	\$ 4,832	\$ -
\$ (988)	\$ -	\$ (1,512,260)	\$ 24,868	\$ (1,443,661)
1,000	1,000	1,585,678	50,443	2,384,835
\$ 12	\$ 1,000	\$ 73,418	\$ 75,311	\$ 941,174
\$ -	\$ 1,000	\$ -	\$ -	\$ 1,000
-	-	-	-	791,433
12	-	-	75,311	75,323
-	-	73,418	-	73,418
\$ 12	\$ 1,000	\$ 73,418	\$ 75,311	\$ 941,174

City of Traer

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Traer has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These government financial statements present the City of Traer (the primary government), the Traer Municipal Utility, and the Traer Ambulance Service (its component units). The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units

The Traer Municipal Utility and the Traer Ambulance Service are presented in a separate column to emphasize that they are legally separate entities, but are financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board, appointed by the Mayor, and the Utility's operating budgets are subject to the approval of the City Council. The Traer Ambulance Service is a not-for-profit organization. Most revenues are generated from private donations given by individuals and businesses in the area.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, City Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Landfill Commission and Tama County Joint E911 Service Board.

### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrate the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.



Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Prairie West and Street Improvement Fund is used to account for the new development capital project.

The proprietary funds are accounted for in the Utilities.

C. Measurement Focus and Basis of Accounting

The City of Traer maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management

investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the City and Traer Municipal Utilities had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized amount of \$845,006 and \$647,739, respectively, pursuant to rule 2a-7 under the Investment Company Act of 1940. Also, the City of Traer has invested \$15,000 in U. S. Treasury Series HH Savings Bonds.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Note Receivable

The City of Traer has entered into a 28E agreement with its component unit Traer Municipal Utilities, the Traer Development Corporation, the Traer Chamber of Commerce, Inc. and the Kubik-Finch Post No. 142 of the American Legion, Traer, Iowa. The purpose of this agreement is to acquire, finance and develop real estate ("Prairie West Fourth and Fifth Additions") and to then market the developed lots to the general public in order to promote the economic development of the City of Traer, Iowa. The City paid for the construction of streets, storm sewers, sanitary sewers and other related improvements in and around "Prairie West Fourth and Fifth Additions" in the amount of approximately \$1,700,000. The City has received a non-interest bearing mortgage note from the Traer Chamber of Commerce, Inc. for \$1,700,000. The balance on this mortgage note receivable as of June 30, 2006 was \$1,631,361. Payments received during the year ended June 30, 2006 were \$68,639, and expenses related to the lots were \$0. This is a non-recourse note, payable upon demand by the City. Proceeds from the sale of residential lots are expected to be used for repayment. The prior notes with the City and the Utilities were released on January 9, 2006.

(4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, component unit revenue bonds/notes and the state revolving loan are as follows:

Year Ending June 30,	General Obligation Bonds		Component Unit Revenue Bonds/Notes		State Revolving Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 180,000	\$ 75,999	\$ 126,101	\$ 85,760	\$ 33,000	\$ 30,663	\$ 339,101	\$ 192,422
2008	195,000	69,784	126,378	82,004	34,000	29,296	355,378	181,084
2009	215,000	62,739	132,696	77,685	36,000	27,886	383,696	168,310
2010	220,000	54,554	139,081	72,835	37,000	26,390	396,081	153,779
2011	140,000	46,014	145,535	67,421	39,000	24,851	324,535	138,286
2012-2016	775,000	151,668	827,163	238,918	222,000	98,484	1,824,163	489,070
2017-2021	295,000	25,630	519,555	53,631	271,000	48,510	1,085,555	127,771
2022-2026	-	-	-	-	68,000	2,965	68,000	2,965
Total	\$ 2,020,000	\$ 486,388	\$ 2,016,509	\$ 678,254	\$ 740,000	\$ 289,045	\$ 4,776,509	\$ 1,453,687

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund. In addition, principal and interest on the State Revolving Loan are paid from the Debt Service Fund as required by the resolution.

The resolutions providing for the issuance of the revenue bonds/notes include the following provisions.

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bonds/notes holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate electric, water and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bonds/notes principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer bond sinking fund to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. Additional monthly transfers shall also be made to the electric and water reserve accounts to accumulate amounts equal to the maximum principal and interest due in any succeeding fiscal year. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(5) Pension and Retirement Benefits

The City and the Utilities contribute to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$34,447, \$34,165 and \$33,816, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 6,203
Sick leave	<u>989</u>
Total	<u>\$ 7,192</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

The Utilities' approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2006 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 16,049
Sick leave	<u>3,276</u>
Total	<u>\$ 19,325</u>

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Road Use Tax	General	\$ 52,159
Local Option Sales Tax	General	<u>4,832</u>
		<u>\$ 56,991</u>
Debt Service	General	<u>\$ 39,160</u>
Capital Projects	General	<u>\$174,166</u>
Total		<u>\$270,317</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Contingent Liabilities

The City of Traer is in the process of an environmental contamination cleanup. The costs associated with this cleanup cannot be estimated at this time as this is an ongoing project. Total costs for the fiscal year ending June 30, 2006 were \$0 of which \$0 has been reimbursed by a state agency. Net costs to the City of Traer for June 30, 2006 were \$0.

(10) Tama County Solid Waste Disposal Commission

The City in conjunction with other municipalities in Tama County has created the Tama County Solid Waste Disposal Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Commission will be prorated among the municipalities. The Commission is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction. The Commission has accumulated \$726,575 for closure/post closure expenditures. However, the Commission may not be accumulating sufficient financial resources and the participating governments may be obligated for a proportionate share of the debt, therefore, the City of Traer may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2006 the City of Traer paid the Tama County Solid Waste Disposal Commission \$8,767. The Commission is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Commission can be obtained from the Tama County Solid Waste Disposal Commission.

(11) Construction Commitment

As of June 30, 2006, the City, including its component unit, had \$346,457 in construction commitments.

(12) Interdepartmental Loans

Water Control Project

The Enterprise Fund, Electric Utilities has loaned the Enterprise Fund, Water Utility \$60,000 for the water control project. This loan is a non-interest bearing note, payable from the revenue of the water fund. No payment schedule has been established.

(13) Component Unit Detail

The Traer Municipal Utilities and the Traer Ambulance Service are component units of the City of Traer. The Statement of Cash Receipts, Disbursements and Changes in Cash Balances and a list of transactions between the City and the Utilities and the City and Ambulance Service for the year ended June 30, 2006 follows:

	Traer Municipal Utilities Enterprise Funds			
	Electric	Water	Sewer	Total
Operating receipts:				
Charges for service	\$ 2,107,836	\$ 365,794	\$ 116,665	\$ 2,590,295
Operating disbursements:				
Business type activities	<u>2,066,703</u>	<u>394,152</u>	<u>124,727</u>	<u>2,585,582</u>
Deficiency of operating receipts under operating disbursements	<u>\$ 41,133</u>	<u>\$ (28,358)</u>	<u>\$ (8,062)</u>	<u>\$ 4,713</u>
Non-operating receipts (disbursements):				
Interest on investments	\$ 12,067	\$ 13,584	\$ 4,664	\$ 30,315
Debt Service	<u>(156,602)</u>	<u>(51,654)</u>	<u>-</u>	<u>(208,256)</u>
Total non-operating receipts (disbursements)	<u>\$ (144,535)</u>	<u>\$ (38,070)</u>	<u>\$ 4,664</u>	<u>\$ (177,941)</u>
Net change in cash balances	\$ (103,402)	\$ (66,428)	\$ (3,398)	\$ (173,228)
Cash balances beginning of year	<u>813,811</u>	<u>148,263</u>	<u>138,035</u>	<u>1,100,109</u>
Cash balances end of year	<u>\$ 710,409</u>	<u>\$ 81,835</u>	<u>\$ 134,637</u>	<u>\$ 926,881</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 202,927	\$ 56,000	\$ -	\$ 258,927
Unreserved	<u>507,482</u>	<u>25,835</u>	<u>134,637</u>	<u>667,954</u>
Total cash basis fund balances	<u>\$ 710,409</u>	<u>\$ 81,835</u>	<u>\$ 134,637</u>	<u>\$ 926,881</u>

#### City Paid to Utilities:

Utilities, miscellaneous  
(office services)

\$271,802

	Traer Ambulance Service
Operating receipts:	
Intergovernmental	\$ 15,435
Miscellaneous	<u>26,100</u>
Total operating receipts	<u>\$ 41,535</u>
Operating disbursements:	
Public safety	<u>\$ 72,492</u>
Excess of operating receipts over operating disbursements	<u>\$ (30,957)</u>
Non-operating receipts:	
Interest on investments	<u>\$ 1,870</u>
Net change in cash balance	\$ (29,087)
Cash balance beginning of year	<u>34,969</u>
Cash balance end of year	<u>\$ 5,882</u>

#### City paid to Ambulance Service

Meetings and calls

\$15,435

City of Traer

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Major Component Unit Included in the Budget
Receipts:			
Property tax	\$ 488,081	\$ -	\$ -
Tax increment financing collections	30,519	-	-
Other city tax	85,221	-	-
Licenses and permits	1,688	-	-
Use of money and property	21,673	-	30,315
Intergovernmental	293,987	-	-
Charges for service	267,246	-	2,590,295
Miscellaneous	353,987	-	-
Total receipts	<u>\$ 1,542,402</u>	<u>\$ -</u>	<u>\$ 2,620,610</u>
Disbursements:			
Public safety	\$ 277,207	\$ -	\$ -
Public works	343,485	-	-
Health and social services	7,882	-	-
Culture and recreation	156,602	-	-
Community and economic development	104,266	-	-
General government	139,770	-	-
Debt service	245,761	-	-
Capital projects	1,711,090	-	-
Business type activities	-	-	2,793,838
Total disbursements	<u>\$ 2,986,063</u>	<u>\$ -</u>	<u>\$ 2,793,838</u>
Deficiency of receipts under disbursements	\$ (1,443,661)	\$ -	\$ (173,228)
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (1,443,661)	\$ -	\$ (173,228)
Balances beginning of year	<u>2,384,835</u>	<u>-</u>	<u>1,100,109</u>
Balances end of year	<u>\$ 941,174</u>	<u>\$ -</u>	<u>\$ 926,881</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 488,081	\$ 490,696	\$ 490,696	\$ (2,615)
30,519	30,000	30,000	519
85,221	72,495	72,495	12,726
1,688	5,350	5,350	(3,662)
51,988	13,850	13,850	38,138
293,987	328,760	328,760	(34,773)
2,857,541	3,848,170	3,848,170	(990,629)
353,987	71,750	71,750	282,237
<u>\$ 4,163,012</u>	<u>\$ 4,861,071</u>	<u>\$ 4,861,071</u>	<u>\$ (698,059)</u>
\$ 277,207	\$ 260,561	\$ 285,561	\$ 8,354
343,485	414,850	414,850	71,365
7,882	12,625	15,625	7,743
156,602	150,391	155,391	(1,211)
104,266	104,790	114,790	10,524
139,770	134,060	144,060	4,290
245,761	303,849	303,849	58,088
1,711,090	1,337,000	1,737,000	25,910
2,793,838	3,565,790	3,565,790	771,952
<u>\$ 5,779,901</u>	<u>\$ 6,283,916</u>	<u>\$ 6,736,916</u>	<u>\$ 957,015</u>
\$ (1,616,889)	\$ (1,422,845)	\$ (1,875,845)	\$ 258,956
<u>-</u>	<u>1,090,000</u>	<u>1,090,000</u>	<u>(1,090,000)</u>
\$ (1,616,889)	\$ (332,845)	\$ (785,845)	\$ (831,044)
<u>3,484,944</u>	<u>2,193,676</u>	<u>2,193,676</u>	<u>1,291,268</u>
<u>\$ 1,868,055</u>	<u>\$ 1,860,831</u>	<u>\$ 1,407,831</u>	<u>\$ 460,224</u>





City of Traer

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$453,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation function.

## City of Traer

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Fund

As of and for the year ended June 30, 2006

	Special Revenue
	Local Option Sales Tax
Receipts:	
Other city tax	\$ 78,263
Disbursements:	
Operating:	
Community and economic development	\$ 58,227
Excess of receipts over disbursements	\$ 20,036
Other financing sources:	
Operating transfers in	\$ 4,832
Net change in cash balances	\$ 24,868
Cash balances beginning of year	50,443
Cash balances end of year	\$ 75,311
Cash Basis Fund Balances	
Unreserved:	
Special revenue funds	75,311
Total cash basis fund balances	\$ 75,311

See accompanying independent auditors' report.

City of Traer  
Schedule of Indebtedness  
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Series 2000	May 15, 2000	4.9-5.5%	\$ 400,000
Series 2001	May 1, 2001	4.0-4.7%	300,000
Series 2003	Aug 1, 2003	1.75-3.9%	500,000
Series 2005	Jun 1, 2005	2.95-4.20%	1,250,000
Total			
Component unit bonds/notes:			
Revenue notes:			
Electric Capital Loan Note	May 1, 2003	2.5-4.7%	\$ 1,750,000
Revenue bonds:			
FMHA Water Bond	Jan 1, 1982	5.00%	\$ 871,200
Total			
State revolving loans:			
2001 Sewer Revenue Bond	Aug 3, 2001	4.30%	\$ 757,000
2003 Sewer Revenue Bond	Aug 5, 2003	4.30%	101,000
Total			

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 155,000	\$ -	\$ 25,000	\$ 130,000	\$ 8,360	\$ -
215,000	-	35,000	180,000	9,705	-
500,000	-	40,000	460,000	15,595	-
1,250,000	-	-	1,250,000	45,843	-
<u>\$ 2,120,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 2,020,000</u>	<u>\$ 79,503</u>	<u>\$ -</u>
\$ 1,580,000	\$ -	\$ 95,000	\$ 1,485,000	\$ 61,602	\$ -
554,454	-	22,945	531,509	28,744	-
<u>\$ 2,134,454</u>	<u>\$ -</u>	<u>\$ 117,945</u>	<u>\$ 2,016,509</u>	<u>\$ 90,346</u>	<u>\$ -</u>
\$ 679,000	\$ -	\$ 28,000	\$ 651,000	\$ 29,197	\$ -
93,000	-	4,000	89,000	2,790	-
<u>\$ 772,000</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ 740,000</u>	<u>\$ 31,987</u>	<u>\$ -</u>

City of Traer  
Bond and Note Maturities

June 30, 2006

General Obligation Bonds									
Year	Series 2000		Series 2001		Series 2003		Series 2005		Total
	Issued May 15, 2000		Issued May 1, 2001		Issued Aug 1, 2003		Issued June 1, 2005		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
Ending June 30,									
2007	5.30%	\$ 30,000	4.40%	\$ 40,000	2.00%	\$ 40,000	2.95%	\$ 70,000	\$ 180,000
2008	5.40%	30,000	4.50%	45,000	2.40%	40,000	3.05%	80,000	195,000
2009	5.50%	35,000	4.60%	50,000	2.70%	40,000	3.20%	90,000	215,000
2010	5.50%	35,000	4.70%	45,000	3.00%	40,000	3.30%	100,000	220,000
2011	-	-	-	-	3.20%	45,000	3.40%	95,000	140,000
2012	-	-	-	-	3.40%	45,000	3.55%	115,000	160,000
2013	-	-	-	-	3.60%	50,000	3.65%	100,000	150,000
2014	-	-	-	-	3.70%	50,000	3.80%	105,000	155,000
2015	-	-	-	-	3.80%	55,000	3.90%	100,000	155,000
2016	-	-	-	-	3.90%	55,000	4.00%	100,000	155,000
2017	-	-	-	-	-	-	4.10%	100,000	100,000
2018	-	-	-	-	-	-	4.15%	100,000	100,000
2019	-	-	-	-	-	-	4.20%	95,000	95,000
Total		\$ 130,000		\$ 180,000		\$ 460,000		\$ 1,250,000	\$ 2,020,000

Component Unit Revenue Bonds/Notes						Revenue Loans					
Year	Revenue Capital			Revenue Bond			State		State		
	Loan Note						Revolving Loan		Revolving Loan		
	Electric Series 2003			FMHA Water Bond			2001 Sewer		2003 Sewer		
	Issued May 1, 2003			Issued Jan 1, 1982			Issued Aug 3, 2001		Issued Aug 5, 2003		
Ending	Interest		Interest			Interest		Interest			
June 30,	Rates	Amount	Rates	Amount	Total	Rates	Amounts	Rates	Amounts	Total	
2007	2.50%	\$ 100,000	5.00%	\$ 26,101	\$ 126,101	4.30%	\$ 29,000	3.00%	\$ 4,000	\$ 33,000	
2008	3.00%	100,000	5.00%	26,378	126,378	4.30%	30,000	3.00%	4,000	34,000	
2009	3.30%	105,000	5.00%	27,696	132,696	4.30%	32,000	3.00%	4,000	36,000	
2010	3.60%	110,000	5.00%	29,081	139,081	4.30%	33,000	3.00%	4,000	37,000	
2011	3.85%	115,000	5.00%	30,535	145,535	4.30%	34,000	3.00%	5,000	39,000	
2012	4.00%	120,000	5.00%	32,062	152,062	4.30%	36,000	3.00%	5,000	41,000	
2013	4.10%	125,000	5.00%	33,665	158,665	4.30%	38,000	3.00%	5,000	43,000	
2014	4.25%	130,000	5.00%	35,348	165,348	4.30%	39,000	3.00%	5,000	44,000	
2015	4.40%	135,000	5.00%	37,116	172,116	4.30%	41,000	3.00%	5,000	46,000	

See accompanying independent auditors' report.

## City of Traer

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Three Years

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:			
Property tax	\$ 488,081	\$ 466,425	\$ 450,358
Tax increment financing collections	30,519	27,954	7,978
Other city tax	85,221	82,107	67,751
Licenses and permits	1,688	2,064	2,154
Use of money and property	21,673	26,655	18,604
Intergovernmental	293,987	521,023	289,983
Charges for service	267,246	122,712	214,406
Miscellaneous	353,987	191,957	447,982
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 1,542,402</u>	<u>\$ 1,440,897</u>	<u>\$ 1,499,216</u>
Disbursements:			
Operating:			
Public safety	\$ 277,207	\$ 243,189	\$ 159,791
Public works	343,485	355,075	310,259
Health and social services	7,882	7,518	4,693
Culture and recreation	156,602	167,091	140,266
Community and economic development	104,266	161,551	98,216
General government	139,770	142,528	151,884
Debt service	245,761	209,824	205,107
Capital projects	1,711,090	370,740	1,465,379
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 2,986,063</u>	<u>\$ 1,657,516</u>	<u>\$ 2,535,595</u>

See accompanying independent auditors' report.



# **LINES MURPHY & COMPANY, P.L.C.**

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Independent Auditors' Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor, Members of the City Council and  
Board of Trustees, Traer Municipal Utilities:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 29, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Traer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Traer's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Traer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Traer; the officials, employees and customers of the Traer Municipal Utilities and other parties to whom the City of Traer and the Traer Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Traer, the Traer Municipal Utilities, and the Traer Ambulance Service during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
August 29, 2006

City of Traer

Schedule of Findings

Year ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Traer

Schedule of Findings

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Utility should review control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City and Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Traer

Schedule of Findings

Year ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

III-A-06     Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-06     Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted. However, both sides of checks or images were not available.

Recommendation – The City should request both sides of checks or images from their financial institution.

Response – We will request both sides of checks or images from our financial institution.

Conclusion – Response accepted.

III-C-06     Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-06     Business Transactions – We noted no business transactions between the City and City officials, the Utilities and Utility officials, or employees.

III-E-06     Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Traer

Schedule of Findings

Year ended June 30, 2006

III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council and Board minutes but were not. Although minutes of Council and Board proceedings were published, they were not always signed by the proper officials as required by Chapter 380.7 of the Code of Iowa.

Recommendation – The City and Utility should comply with Chapter 380.7 of the Code of Iowa and should sign minutes as required.

Response – We will comply with the Code requirements for signing minutes as required.

Conclusion – Response accepted.

III-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-H-06 Revenue Bonds and Notes – The City and Utility have complied with the revenue bond and note resolutions.

III-I-06 Financial Condition – There were no funds which had deficit balances at June 30, 2006.

III-J-06 Telecommunications Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-K-06 Tax Increment Financing and Employee Benefits Levy – Chapters 384 and 403 of the Code of Iowa state, in part, that the employee benefits levy and tax increment financing should be recorded in separate Special Revenue Funds. The City is recording tax increment financing and the employee benefits tax levy in the General Fund.

Recommendation – Collections from tax increment financing and the employee benefits tax levy should be recorded in separate Special Revenue Funds in accordance with Chapters 384 and 403 of the Code of Iowa.

Response – The City will review their fund structure.

Conclusion – Response accepted.

City of Traer

## Required Supplementary Information

## Other Supplementary Information



## Basic Financial Statements